

2009 Annual Report

Eastern Maine Electric Cooperative, Inc.

P O Box 425 Calais ME 04619

www.emec.com



Serving Eastern and Northern Maine For 70 Years

EASTERN MAINE ELECTRIC COOPERATIVE

Eastern Maine Electric Co-op is a nonprofit consumer-owned electric utility serving parts of Aroostook, Penobscot, and Washington Counties on Maine’s Eastern Border with Canada. The primary goal of a rural electric cooperative is to provide quality electric service at the lowest cost consistent with sound management.

DIRECTORS

R. SCOTT SKINNER - PRESIDENT	Zone 11
Albert W. Hartford, Vice President	Zone 3
Wallace H. Lindahl, Secretary	Zone 8
Ralph E. Staples, Treasurer	Zone 9
Ralph S. Ray	Zone 1
Robert S. Olsson	Zone 2
Earl C. Hill, Jr.	Zone 4
John W. Larkin	Zone 5
Vernon M. Wentworth	Zone 6
James W. Bala	Zone 7
Virgil L. Farrar	Zone 10

CHIEF EXECUTIVE OFFICER
Scott M. Hallowell

ATTORNEY
Daniel L. Lacasse

AUDITOR
Berry, Dunn, McNeil & Parker, CPAs



Eastern Maine 
Electric Cooperative

A Touchstone Energy® Cooperative 
The power of human connections®

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2009 REPORT TO THE MEMBERS

Operational Developments

As the Cooperative continued trimming and clearing trees in the power line rights of way, the Operations Department began to explore innovative approaches for stretching right of way maintenance dollars. One such approach was to pursue a new level of collaboration with wood harvesting companies. Traditionally, utilities contract with specialized right of way crews to do tree trimming and clearing.

Wood harvesters can also clear trees next to the power lines, however, and under the right circumstances, they can do so faster and more efficiently than the conventional contract crews. When harvesters are already working in areas that are adjacent to the power line right of way, added collaboration can benefit both the Cooperative and the harvesters. The traditional practice of wood products companies is to leave a buffer zone of intact trees between the harvested section of the wood lot and the power lines. The collaboration and coordination between the Cooperative and the local wood harvesters allows the harvesters to safely clear even those trees immediately adjacent to the power lines. The local wood harvesters therefore have access to product that would otherwise be unavailable to them. The Cooperative benefits from having more of the right of way cleared.

Because EMEC has over 1,700 miles of power lines, and because the Cooperative has one of the most tree-shaded service territories in the country, conventional right of way crews are still needed and preferred when trimming and clearing adjacent to cultivated yards or in residential neighborhoods. The new approach to right of way clearing simply adds another type of resource for certain specific jobs, as the Co-op continues to emphasize cost management that does not compromise service quality.

In separate efforts, progress also continued on a systematic re-engineering of the distribution grid in Woodland. The three-phase power line on Main Street was converted to 7.2 kiloVolts (kV) and connected to the Woodland B substation

transformer. From the new Main Street line, the Cooperative has begun extending 7.2 kV service into the rest of the town's network of streets.

The Main Street line now ties into the three-phase line on the Access Road, which can also be served from the Princeton substation. In some circumstances, it will be possible to shift electrical load between the Princeton and Woodland B substations, giving the Co-op greater flexibility in serving its members during emergencies.

On September 19, 2009, EMEC line crews and contractors completed several key system improvements during a very busy overnight planned power outage. The most significant project was the installation of three transmission-line switches at the Salmon Falls substation in Calais. The switches enhance the Cooperative's ability to sectionalize the transmission line to minimize the impact of certain types of outages.

One of the switches installed that night allows line crews to more easily isolate the Calais substation from the transmission line, so that Co-op members from Baileyville all the way to Orient would not experience a service interruption. A second switch allows crews to isolate the transmission line north of Calais, such that Baring, Calais, Robbinston, and parts of Pembroke, Perry, and Baileyville would not see service interruptions while repairs are conducted north of their location. The third switch will make it possible for the Cooperative to isolate its transmission line from the New Brunswick system should that become necessary.

During the overnight outage on September 19th, the Cooperative's 69 kV transmission line was de-energized for the work in Calais. The outage affected all towns served over that transmission line, and line crews made the most of the down time by completing other projects in Princeton, Woodland, Topsfield and elsewhere that otherwise would have required additional planned outages at later dates.

Some of those projects involved specified maintenance and repairs, but another significant improvement was the installation of electronic reclosers at the Topsfield substation. This will allow the Co-op to increase the number of sectionalizing devices on the circuits serving the Danforth and Springfield areas. Further sectionalizing will enhance system reliability by isolating outages to smaller sections of the delivery system.

Financial Developments

The kiloWatt-hours delivered in 2009 decreased by 1.3% compared to 2008. In addition to the decrease in delivery revenue, the Co-op, like most households and businesses, continued to experience increased costs.

The Cooperative's lenders use two financial ratios as their chief measures of the Cooperative's financial progress. The first of these ratios is the Times Interest Earned

Ratio (TIER), which is a measure of the relationship between margin and interest expense. The second ratio is Debt Service Coverage (DSC) ratio, which is a measure of the Cooperative's ability to generate funds sufficient to cover its debt service payments. A ratio of 1.00 for DSC means that a business has generated just enough cash from that year, after meeting its operating expenses, to make its debt service payments. In such an instance, there would not be any cash available for capital improvements or expenditures.

In last year's challenging financial environment, the Cooperative continued its emphasis on providing reliable service, while also meeting the financial requirements of the lenders. For 2009, the Cooperative attained TIER of 1.27 and TIER of 1.62. EMEC's lenders require that for any given year, the Cooperative will have obtained a TIER of 1.25 and a DSC ratio of 1.35 for at least two of the previous three years.

Supply Rate Decrease

Near the end of 2009, the Cooperative conducted a competitive bid process, resulting in a new Standard Offer supply rate that will bring a decrease of about 10% in the average member's overall electric bill. The new standard offer rate, sold to EMEC members by New Brunswick Power Generation Company, took effect on April 1, 2010. The new rate is the lowest residential supply rate in the region.

For energy used after March 31, 2010, the supply price dropped from 9.15 cents per kiloWatt-hour to 7.354 ¢/kWh, a drop of nearly 1.8 ¢/kWh. For a family using an average of 600 kWh's/month, the change brings a savings of about \$10.78 per month or \$129.36 per year.

There will be a slight change in the standard offer supply rate in years two and three. In year two of the contract, the price per kilowatt-hour for supply will be 7.637 cents, and in year three, the price will be 7.859 cents.

One advantage of the three-year contract is that there will be rate stability, and Co-op members will be better able to predict their electric costs over the three-year period. In an era of dramatic fuel price variations, predictability is considered a strong suit for electric rates.

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
BALANCE SHEET
FOR THE YEARS 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Utility Plant:		
Electric plant in service - at cost	\$47,968,947	\$46,375,458
Construction work in progress	694,060	836,185
Total Utility Plant	48,663,007	47,211,643
Less: Accumulated provisions for depreciation	23,687,770	22,475,680
Net Utility Plant	24,975,237	24,735,963
Other Assets:		
Deferred charges and other assets	13,042	19,795
Investments in associated organizations	825,023	786,760
Note receivable	0	65,625
Total Other Assets	838,065	872,180
Current Assets:		
Cash and cash investments	2,294,720	1,060,102
Accounts receivable - net	1,107,833	1,255,026
Materials and supplies	739,719	576,856
Current portion of notes receivable	65,625	87,500
Other current assets	581,361	42,489
Total Current Assets	4,789,258	3,021,973
Deferred Debits:		
Regulatory assets, net of amortization of \$8,841,523 in 2009 and \$8,591,880 in 2008	6,782,455	7,173,098
Total Assets	\$37,385,015	\$35,803,214

LIABILITIES & EQUITY

Equities:		
Memberships	\$ 50,100	\$ 50,090
Patronage capital	11,585,596	11,297,528
Total Margins & Equities	11,635,696	11,347,618
Long Term Debt, excluding current maturities:		
Rural Utilities Service (RUS)	11,309,628	11,848,785
Cooperative Finance Corp. (CFC)	4,163,181	4,273,202
Federal Financing Bank (FFB)	5,776,558	3,528,126
Rural Business - Cooperative Service	0	65,625
Total Long Term Debt	21,249,367	19,715,738
Other non-current liabilities	988,700	1,158,300
Current Liabilities:		
Current maturities of long-term debt	766,000	817,000
Accounts payable	943,046	978,616
Consumer deposits	70,706	122,554
Accrued interest	67,794	70,325
Accrued expenses and other current liabilities	388,676	362,251
Total Current Liabilities	2,236,222	2,350,746
Deferred Credits	1,275,030	1,230,812
Total Liabilities & Equities	\$37,385,015	\$35,803,214

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS
FOR THE YEARS 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Residential	\$ 4,464,721	\$ 4,491,493
Seasonal	481,773	487,409
Commercial	2,311,184	2,376,472
Street Lighting and Public Auth.	202,452	209,253
Industrial & Other	19,973	62,384
Other Electric	374,238	1,132,553
Total Operating Revenues	<u>7,854,341</u>	<u>8,759,564</u>
Operating Expenses:		
Purchased Power	<u>148,483</u>	<u>177,161</u>
Transmission	60,962	107,979
Distribution, operation	1,571,722	1,454,751
Distribution, maintenance	585,718	830,864
Consumer accounts	910,004	887,146
Customer service & informational exp.	155,392	191,202
Administrative & general	1,357,478	1,321,070
Depreciation	1,552,319	1,527,676
Amortization, regulatory asset	249,643	249,643
Interest - Long-term	1,070,490	980,370
Other interest and expenses	3,818	31,374
Total Oper. Exp. without Purchased Power	<u>7,517,546</u>	<u>7,582,075</u>
Total Operating Expenses	<u>7,666,029</u>	<u>7,759,236</u>
Operating Margins	<u>188,312</u>	<u>1,000,328</u>
Patronage dividends	24,678	38,820
Net Operating Margins	<u>212,990</u>	<u>1,039,148</u>
Nonoperating Margins:		
Interest income	76,463	30,759
Other	1,283	8,798
Net Nonoperating Margins	<u>77,746</u>	<u>39,557</u>
Net Margins	<u>\$ 290,736</u>	<u>\$1,078,705</u>
T.I.E.R.	1.27	2.10
Operating D.S.C.	1.62	2.10

AUDIT REPORT: The annual audit of records for the columns marked 2009 and 2008 were made by Berry, Dunn, McNeil & Parker, CPAs, 100 Middle Street, Portland, ME 04104. Copies of the audit report are on file with the Maine Public Utilities Commission, Augusta, Maine; the Rural Utilities Service, Washington, D.C.; and are available for inspection at the Cooperative's offices in Calais, Maine.

FIVE YEAR COMPARISONS

GENERAL STATISTICS	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average Number of Active Accounts	12,575	12,597	12,538	12,410	12,282
Total Miles of Electric Lines	1,714	1,701	1,696	1,679	1,672
Amount Allocated for Bad Debts (% Retail Rev.)	\$166,605	\$75,489	\$61,682	\$59,707	\$71,159
Bad Debts Written Off (Actual for year)	\$103,432	\$87,781	\$68,382	\$60,590	\$63,780

REVENUE & EXPENSE STATISTICS	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average Annual kWh/Member (Res.)*	6,329	6,341	6,500	6,448	6,545
Average Annual Rev. (cents/kWh) (Res.)*	8.562	8.587	7.796	7.641	7.604
Avg. # of Consumers per Employee	370	371	358	355	361
Operations & Maint./Mile of Line	\$1,259	\$1,344	\$1,210	\$1,273	\$1,355
Average Number of Employees	34	34	35	35	34
Consumer Accounts Exp. as % of Rev.	11.59%	10.13%	9.80%	9.94%	9.36%
A&G Expense as % of Rev.	17.28%	15.08%	18.85%	17.71%	17.84%
kWh losses	9.43%	9.54%	9.90%	9.45%	10.03%

*Does not include seasonal sales.

REVENUE CLASS SUMMARY	<u>KWH DELIVERED</u>	<u>PERCENTAGE OF TOTAL DEL.</u>	<u>%INCREASE (DECREASE) OVER 2008</u>
Residential Sales	52,145,394	57.9%	-0.3%
Seasonal Sales	2,484,012	2.8%	-2.2%
Commercial Sales	33,075,767	36.7%	-2.6%
Street Lighting & Public Auth.	<u>2,355,341</u>	<u>2.6%</u>	<u>-4.5%</u>
Total Retail Delivery	90,060,514	100.0%	-1.3%

